FOOD MARKETING INSTITUTE

800 CONNECTICUT AVE., N.W.
WASHINGTON, D.C. 20006-2701
TELEPHONE: 202/452-8444
FAX: 202/429-4519
E-MAIL: FMI@FMI.ORG
WEBSITE: HTTP://WWW.FMI.ORG

December 11, 1997

Ms. Cynthia L. Johnson
Director, Cash Management Policy and Planning Division
Financial Management Service
U.S. Department of the Treasury
Room 420
401 14th Street, S.W.
Washington, D.C. 20227

RE: Management of Federal Agency Disbursements; Proposed Rule
62 Fed. Reg. 48714 (September 16, 1997)

Dear Ms. Johnson:

The Food Marketing Institute (FMI) welcomes the opportunity to comment on the Department of the Treasury's ("Treasury's") proposed rule on the management of Federal agency disbursements and the conversion of these disbursements from paper based payment methods to electronic funds transfer ("EFT").

The Food Marketing Institute is a nonprofit association conducting programs in research, education, industry relations and public affairs on behalf of our 1,500 members including their subsidiaries - food retailers and wholesalers and their customers in the United States and around the world. FMI's domestic member companies operate approximately 21,000 retail food stores with a combined annual sales volume of $220 billion - more than half of all grocery sales in the United States. Our retail membership is composed of large multi-store chains, small regional firms and independent supermarkets.

With industry-wide annual sales of over $400 billion, there is no doubt that the nation's supermarkets have a vital stake in financial services issues, such as those in the proposed rule, that may affect the type of payment tendered by our customers at checkout. While FMI certainly lauds Treasury's motives and the goal of bringing into the financial mainstream those Americans who currently do not use the nation's financial system, we urge caution in fully implementing this regime. As we understand it, the current proposal would result in windfall profits for financial institutions and in higher operating costs for food stores and other types of retailers.[1]

[1] As we understand it, Treasury has stated that EFT will save the Federal government as much as $100 million a year in processing costs alone. This savings is in addition to the $65 million lost each year by individuals, businesses and the government as a result of forgery, theft and counterfeiting of government checks. At the

EFT
#080

Specifically, we focus our comments on the link between the portion of the approximately 10 million "unbanked" Federal payment recipients (who do not qualify for a waiver under proposed section 208.4) who will not voluntarily establish an account at a financial institution, i.e., those for whom the Federal government will establish an account, and the means by which these funds, heretofore presented to food retailers as cash transactions, are electronically debited from those accounts (the method of payment). While we do not question the wisdom of bringing all Americans into a system that is admittedly safer and convenient for recipients and less costly for the government than the present paper-based system, there are issues that remain for America's merchants -- who will receive payment in a new way -- that must be addressed.

Method of Payment

As we understand it, Federal payment recipients, provided they do not qualify for a waiver under proposed section 208.4, without an account at a financial will be provided, at a reasonable cost, with an Electronic Transfer Account ("ETA") in their name at a Federally-insured financial institution selected by Treasury (section 208.5). With an ETA, recipients will be able to withdraw their funds through automated teller machines (ATMs) or point-of-sale (POS) terminals with an "access card."[2]

The EFT glossary, posted on Treasury's EFT website, defines "access card" as "a card that resembles a credit card in its uses but results in a debit to the consumer's transaction account in response to the consumer's purchases. The card may be used at an automated teller machine or other automated payment equipment." A debit card "that resembles a credit card..." is, by definition, an off-line debit card. If this definition of an ETA debit card is incorporated into the final rule, merchants will be required to pay credit interchange for risk-free transactions that simply access and debit ETAs. This would be unacceptable. We cannot make the point strongly enough: if ETA holders must use a debit card, that card should provide the maximum security to the cardholder and the lowest transaction cost to the merchant. The final rule, therefore, must mandate that financial institutions holding ETAs issue only on-line debit instruments for those accounts. The issuance of a debit card to recipients for whom an ETA is opened may make sense; issuance of an off-line debit product emphatically does not.

---

least, a portion of these savings should be used to ensure that transactions from government mandated accounts do not unduly enrich a financial institution or network at the expense of existing account holders or those who will accept new, non-cash, forms of payment for goods and services.

[2] In the proposed rule, at page 48722, Treasury asks whether account terms of the new ETA should address the charges imposed by ATM owners other than the account provider. Since non-financial institutions, including a number of supermarket companies, own ATM machines ATM charges by non-financial institution owners of ATMs should be taken into account in the design of the ETA.

We believe that those for whom an ETA is opened, who also receive state-administered benefits ("dual recipients") should be required to have both benefits on an EBT card. In addition, we appreciate Treasury's efforts in working with states to allow Federal payment recipients to request that both types of payments be accessed using a single card. We do, however, advise Treasury to require, or at the least strongly encourage, dual recipients to utilize their state-issued EBT card for ETA debit.[3] Regardless of type of benefit accessed, the debit card platform utilized by recipients for whom an ETA is opened must be on-line -- the most secure transaction form for the recipient and the least costly for the merchant taking the transaction.[4]

Financial Institutions as "Treasury's Financial Agent"

By the terms of the proposed rule, Treasury will provide an ETA to the unbanked by engaging one or more financial institutions to act as Treasury's financial agent. Federal payment recipients with an ETA will pay periodic, reasonable, service charges for these accounts to the selected financial institution(s). A Federal financial agent, while certainly entitled to a reasonable return on an ETA, should not be allowed to unduly prosper from its relationship with Treasury at the expense of supermarkets or other commercial establishments. Allowing financial institutions to issue high cost off-line debit instruments to account holders for which it is acting in the place of Treasury would be to Federally sanction even higher profits than those contemplated by the proposed rules; higher profits generated from a population of Federal payment recipients contractually delivered to it by Treasury.

Clearly, Federal EFT and the provision of ETAs will not change the customer base -- the number of shoppers -- at the nation's supermarkets. As we have stated, it will, however, profoundly change the form of payment used by a substantial number of customers for a very large number of transactions. Account debit may well replace cash for the ETA customer at the checkout stand. This, of course, carries with it new switching and network services costs not borne by the retail industry today for cash transactions. If, indeed, EFT

---

[3] The proposed regulations, at page 48722, ask whether it is important that an ETA have "a broad geographic reach to [meet] the access objectives that most recipients will want." Indeed, in order to meet Treasury's goal of recipient access to funds, it is essential that EFT not only provide local access to funds, but that recipients be able to spend their funds anywhere in the country, i.e., the system must be interoperable. Today, Federal benefit checks can be cashed, i.e., funds accessed, virtually anywhere in the country. We assume that since ETA debit transactions will be commercial interoperability is easily attainable. We point out the irony that, on the other hand, whereas today food stamp coupons are redeemable at any authorized food stamp store in the United States, an electronic food stamp transaction (EBT) is not, in fact, interoperable. This, of course, leads to a situation where a recipient with food stamps and ETA account funds on a single card could access cash benefits, but not food stamp benefits, anywhere in the country.

[4] Indeed, without excluding payment methods of the future, there is little doubt that today on-line debit cards are the most proprietary method for recipients to access their account and the most cost effective means by which merchants process electronic payment transactions.

will be a reality for all Federal payment recipients by the year 2000, then these new charges will effect the economies of all wishing to accept POS debit transactions. In addition, Federal EFT may well mean new equipment procurements for food retailers and will certainly mean drastically diminished supermarket check cashing services. The Federal government will, therefore, best serve all EFT stakeholders by ensuring transaction and account security for ETA holders and lower transaction costs for the retailers who serve these customers.

Conclusion

In conclusion, the nation's supermarkets understand that EFT for state and federally administered benefits, indeed for almost all financial transactions, is the direction in which our nation is headed. Our industry is doing its part – in EBT and now in EFT – to service our customers efficiently and effectively at the lowest possible cost. In the present instance, however, to the extent that our customers are also Treasury's customers, we believe sound policy demands that ETA consumers possess the most secure and convenient means to purchase goods and services and that food retailers not be forced to absorb the highest possible costs and fees for ETA debit transactions; costs and fees that would not be imposed but for the EFT initiative.

We appreciate the opportunity to present our views on the proposed rule and thank you for your consideration of these comments.

Respectfully submitted,

Tim Hammonds

Timothy Hammonds
President and CEO
Food Marketing Institute